Blackstone Second-Quarter 2024 Conference Call
Thursday, July 18th, 2024 at 9:00am ET

Weston Tucker: Good morning and welcome to Blackstone's second-quarter conference call. Joining today are: Steve Schwarzman, Chairman and CEO; Jon Gray, President and Chief Operating Officer; and Michael Chae, Chief Financial Officer. Earlier this morning, we issued a press release and slide presentation, which are available on our website. We expect to file our 10-Q report in a few weeks.

I'd like to remind you that today's call may include forward-looking statements which are uncertain and may differ from actual results materially. We do not undertake any duty to update these statements. For a discussion of some of the factors that could affect results, please see the "Risk Factors" section of our 10-K. We'll also refer to non-GAAP measures and you'll find reconciliations in the press release on the shareholders page of our website.

Also note that: nothing on this call constitutes an offer to sell, or a solicitation of an offer to purchase, an interest in any Blackstone fund. This audio-cast is copyrighted material of Blackstone and may not be duplicated without consent.

So, quickly on results: We reported GAAP net income for the quarter of $948 million. Distributable earnings were $1.3 billion, or $0.96 per common share, and we declared a dividend of $0.82, which will be paid to holders of record as of July 29th.

With that, I'll turn the call over to Steve.

Steve Schwarzman: Good morning and thank you for joining our call.

On our last several earnings calls, we spent a good deal of time talking about how we saw inflation compared to many other market participants. We took a strong view that we were seeing different outcomes, with inflation moderating more quickly – in part because of our unique position in the real estate area and our understanding of the shelter component of the consumer price index. As a result of our convictions, we decided to adopt a more aggressive approach to new investments. I'm pleased to report that in the second quarter we deployed $34 billion – the highest level in two years – and nearly $90 billion in the last three quarters since the 10-year Treasury yield peaked. With inflation continuing to recede, we expect the Fed to begin cutting interest rates later this year. This should be very positive for Blackstone's asset values and provide the foundation for a significant realization cycle over time.

As the largest alternatives firm in the world with nearly $1.1 trillion of AUM, the real-time data collected across our global portfolio provides insights that help us decide in which areas to concentrate our investments. This data also alerts us to major paradigm shifts, which is essential for any top-performing asset manager. Our firm has demonstrated this foresight repeatedly since our founding, including: the decision to extend our private equity business into real estate in 1991 when values collapsed following the savings and loan crisis; by significantly expanding our credit platform in 2008 in advance of the extraordinary investment opportunities that arose from the global financial crisis; being the first investment alternatives firm to start and develop a dedicated private wealth business in 2011, and introducing the first large-scale perpetual product for that channel in 2017; and our decision later the same year to create a perpetual infrastructure strategy for institutional investors, which now anchors an overall infrastructure platform across Blackstone of over $100 billion.

This demonstrated ability to be in the right place at the right time continues on an accelerated basis today. This includes our investments and innovation in all types of private credit, where we are one of the world's largest managers; in global logistics, as the largest private owner of warehouses in the world; in the energy transition field, where we own the largest private renewables developer in the United States; in India, where we believe Blackstone is the largest alternatives investor in what has become the fastest-growing major economy; and of course, in data centers, where we own the fastest growing platform in the world.

I'd like to take a moment to discuss what Blackstone is doing today in artificial intelligence – specifically in data centers, which is an essential part of that breakthrough area. AI is widely acknowledged as having the potential to be one of the greatest drivers of transformation in a generation. I have personally been active in this field since 2015. I believe the consequences of AI are as profound as what occurred in 1880 when Thomas Edison patented the electric light bulb. While it took years to develop commercially viable products, the subsequent build out of the electric grid over the following decades has parallels to the creation of data centers today to power the AI revolution. Current expectations are that there will be approximately $1 trillion of capital expenditures in the United States over the next five years to build and facilitate new data centers, with another $1 trillion of capital expenditures outside the United States. And the need to provide power for these data centers is a major contributor to an expected 40% increase in electricity demand in the U.S. over the next decade, compared to minimal growth in the last decade.

We believe these explosive trends will lead to unprecedented investment opportunities for our firm. Blackstone is positioning itself to be the largest financial investor in AI infrastructure in the world, as a result of our platform, capital and expertise. Our portfolio today consists of $55 billion of data centers including facilities under construction, along with over $70 billion in prospective pipeline development. Our largest data center portfolio company QTS has grown leased capacity seven times since we took it private in 2021. Through QTS and our other holdings, we have a robust ongoing dialogue with the world's largest data center customers. We're also providing equity and debt capital to other AI-related companies. For example, in the second quarter, we committed to provide AI-focused cloud service provider Coreweave with $4.5 billion of a $7.5 billion financing package – the largest debt financing in our history. And we're now focusing on addressing the sector's power needs in many differentiated ways. With large-scale platforms in infrastructure, real estate, private credit and renewable energy, we are extremely well positioned to be the partner of choice in this rapidly growing area.

In another important area where Blackstone, once again, has been in the right place at the right time is real estate. During the global financial crisis, most competitors were forced out of business or delivered mediocre results – in fact sometimes losing money for their customers – where Blackstone for our investors ultimately doubled their money. How did we do it? We owned the right assets in the right sectors with the right capital structures, enabling us to emerge from the crisis as the clear market leader. As a result, institutional limited partners and subsequently individual investors allocated significant capital to Blackstone real estate, in contrast to most other real estate managers. With that capital, we repositioned our portfolio over time by selling U.S office buildings, and instead bought warehouses, rental housing and, eventually, data centers. These three sectors comprise approximately 75% of our global real estate equity portfolio today, compared to 2% in 2007. This repositioning drove the outperformance and extraordinary growth of our real estate business over the last decade-and-a-half.

Real estate markets of course are cyclical, and over the past two-and-half years, the increase in interest rates and borrowing costs has created a more challenging environment. Even through this period, Blackstone real estate has delivered differentiated performance. BREIT, for example, has generated a cumulative return of 10% net in its largest share class since the beginning of 2022; and 10%-plus net returns annually since inception seven-and-a-half years ago – more than double the return of the public REIT market. Nearly 90% of BREIT's portfolio is in warehouses, rental housing and data centers – with data centers alone contributing almost 500 basis points to returns in the last twelve months. The performance BREIT has achieved is the key reason it is three times larger today than the next five largest non-traded REITs combined.

Now, the cost of capital has begun to decline, which should be further helped by Fed cuts later this year – we believe creating the basis for a new cycle of increasing values in real estate. At the same time, new construction for most types of real estate is declining dramatically, down 40-70% year-over-year depending on the asset class. Looking forward, we are confident the outcomes experienced by our investors in this cycle will further reinforce our leadership position and will result in higher allocations to Blackstone from both the institutional and private wealth channels in the future. Real estate is one of the largest asset classes in the world, and having the largest business when the cycle is turning should be very advantageous for our shareholders.

Blackstone is the reference firm in the alternatives industry, and for nearly four decades we have been an essential partner to our investors, helping them navigate a dynamic world. The Blackstone brand engenders deep trust with clients, allowing us to innovate and build leading businesses across asset classes. We now have 75 individual investment strategies, and we are working on many more currently. Our near-term plans include launching several new products in the private wealth channel, the global expansion of our infrastructure platform, further deepening our penetration of the private credit and insurance markets, and expanding our business in Asia. Our firm is as innovative today as at any point in our history. Innovation in finance, done correctly, is essential to create the virtuous cycle of satisfied investors who provide more and more capital for future growth. I have great confidence that we are firmly on this path.

And with that – I'll turn it over to Jon.

Jon Gray: Thank you Steve, and good morning everyone.

In January, we highlighted three powerful dynamics emerging in our business. First, that investment activity was picking up meaningfully across the firm; second, that commercial real estate values were bottoming; and third, that our momentum in private wealth was accelerating. Since then, each of these dynamics has progressed in a very positive way.

Starting with investment activity. We deployed $34 billion in the second quarter, up 73% year over year, and committed an additional $19 billion to pending deals. Activity was broad-based across the firm. BXCI, our credit and insurance business, had one of its busiest quarters ever with $21 billion invested or committed, including in global direct lending, along with infrastructure and asset-based credit. In private equity, new commitments included two take-privates in Japan, a music royalties business in the U.K. and a fast-growing insurance broker in India. Back in the U.S., we bought Tropical Smoothie, a franchisor of fast casual cafes. This acquisition launched the investment period for our corporate private equity flagship, for which we've raised more than $20 billion to date.

In real estate, as I said, we made the call in January that values were bottoming, and the pillars of recovery were coming into place. What did we do with our conviction? We deployed nearly $15 billion in the first six months of the year in real estate – approximately two-and-a-half times the same period last year. Since January, Green Street's index of private real estate values has had six consecutive months of flat or increasing values, for the first time in over two years. In our own portfolio, we're now seeing more bidders show up to sales processes for single assets, driving price improvement. Overall, the cost of capital has declined significantly, with borrowing spreads and base rates moving lower, while the availability of debt capital has increased significantly. At the same time, new construction starts are falling sharply and are at, or near, ten-year lows in the U.S. for both warehouses and apartment buildings – our two largest areas of concentration. For a market driven by supply and demand, this is very positive for long-term values.

Nevertheless, the office sector remains under substantial pressure, with more troubled assets likely to emerge. For Blackstone, as we've discussed, we have minimal exposure to traditional U.S. office in our expansive equity portfolio. Exposure is higher in our public mortgage REIT, creating some challenges, although its focus on senior loans has been an important factor in navigating the sector's dislocation. With the vast majority of our global real estate portfolio concentrated in logistics, rental housing and data centers, Blackstone is in a very differentiated position.

Moving to our private wealth business, where our momentum has been accelerating. We raised $7.5 billion in the channel overall in the second quarter. In the perpetual vehicles, we raised over $6 billion in Q2, and nearly $13 billion in the first half of the year – already exceeding what we raised from individuals in all of 2023. BCRED led the way with $3.4 billion raised in the quarter – the highest level in two years. BXPE raised $1.6 billion in the quarter, reaching $4.3 billion in its first six months. And BREIT is seeing encouraging signs on the new sales front, raising $900 million in Q2 – the best quarter in over a year. The vehicle has delivered six straight months of positive performance and has fulfilled 100% of repurchase requests every month since February. Requests in June were down 85% from the peak last year, down 50% from May and have declined further month-to-date in July.

As we've been saying for some time, we believe flows in the wealth channel ultimately follow performance. We've built the leading platform in our industry with over $240 billion and three large-scale perpetual vehicles. We have more in development, including two we plan to bring to market by early next year: first, an infrastructure vehicle that will provide investors access to the full breadth of the firm's strategies in this area, including equity, secondaries and credit; and second, a vehicle that will invest across our expansive credit platform. Our commitment to the $85 trillion private wealth market is stronger than ever.

Multiple other areas of the firm are showing strong momentum today. Our credit and insurance business is thriving in an environment of higher interest rates and accelerating demand for both investment grade and non-investment grade strategies. Our performance has been outstanding, with minimal defaults of less than 40 basis points over the last twelve months in our non-investment grade portfolio. Our scale allows us to focus on larger investments where competitive dynamics are more favorable, and where the quality of borrowers and sponsors is higher. In our nearly $120 billion global direct lending business, our emphasis on senior secured positions with average LTVs of 44% provides significant equity cushion subordinate to our loans. We are the sole or lead lender in approximately 80% of our U.S. portfolio, helping us to drive document negotiations and control the dialogue with borrowers if any challenges arise. We believe our scale, careful sector and asset selection, and deep experience will differentiate us in a world of greater performance dispersion in credit.

In our investment grade-focused credit business, our goal is to deliver higher yields to clients, primarily insurers, by migrating a portion of their liquid portfolios to private credit. We placed or originated $24 billion of A-rated credits on average in the first half of 2024 – up nearly 70% year over year – which generated approximately 185 basis points of excess spread versus comparably rated liquid credits. Our insurance AUM grew 21% year over year to $211 billion, driven by strong client interest in our asset-light, open architecture model. We have four large strategic relationships and 15 SMAs today, and we expect our business to grow significantly from here.

Moving to infrastructure. Our total platform across the firm now exceeds $100 billion, as Steve noted, including our perpetual BIP strategy, infrastructure secondaries and other infrastructure equity and credit investments. We've built this platform from the ground up to become one of the largest in the world. BIP specifically reached the $50 billion milestone including July fund-raising, up 21% from year-end 2023. Performance has been exceptional, with the commingled BIP strategy generating 16% net returns annually since inception, beating the public infrastructure index by nearly 1,100 basis points per year. We are well positioned to address the massive funding needs for infrastructure projects globally, including digital and energy infrastructure. Just last week, we agreed to invest nearly $1 billion in a portfolio of solar and wind projects in the U.S. alongside NextEra – the largest public renewables developer in the country.

A final comment on our draw-down fund business, where there are a number of initiatives we're quite excited about. We've launched or expect to launch fund-raising in the next few quarters for the new vintages of multiple strategies. These include the successors to our $5 billion life sciences fund, $9 billion private credit opportunistic strategy, $22 billion private equity secondaries fund and $6 billion private equity Asia fund. All have strong track records, and we expect the new vintages to be at least as large as – and in most cases, hopefully larger than – the current funds. While the fund-raising environment has been challenging, we're seeing more receptivity from LPs today as markets improve. Importantly, when we meet with our clients around the world, what we consistently hear is that they are holding or increasing their allocations to alternatives, and to Blackstone.

In closing – our firm is emerging from this multi-year period of higher cost-of-capital even stronger than before. And we are sticking with our model of being a third-party asset manager, relying on our track record, our people and the power of our brand to grow.

With that, I'll turn things over to our very capable CFO, Mr. Chae.

Michael Chae: Thanks Jon, and good morning everyone.

The firm delivered steady financial results in the second quarter, with positive momentum in fund-raising and deployment as you've heard today. I will first review results and will then discuss investment performance and the outlook.

Starting with results. The firm's expansive range of growth engines continues to power AUM to new record levels. Total AUM increased 7% year over year to $1.1 trillion, with inflows of $39 billion in the quarter and $151 billion over the last twelve months. Fee-earning inflows were also $151 billion for the LTM period, including $53 billion in the second quarter – the highest level in two-and-a-half years – lifting Fee Earning AUM by 11% to $809 billion. We activated the investment periods for our corporate private equity and PE energy transition flagships in the second quarter which, along with BXPE in private wealth, were in fee holidays as of quarter end – representing $27 billion of Fee AUM in aggregate. Notwithstanding the temporary impact from these fee holidays, management fees increased 5% year over year to a record $1.8 billion in the second quarter. Notably, Q2 represented the 58th consecutive quarter of year-over-year growth in base management fees at the firm.

Fee related earnings were $1.1 billion, or $0.91 per share. The comparison of FRE to prior periods was impacted by a decline in fee related performance revenues in the real estate segment, including from BREIT as its positive year-to-date appreciation came in modestly below the required hurdle. These revenues carry favorable margins and their decline impacted the firm's FRE margin in the second quarter. These factors were partly offset by the steadily growing contribution from our direct lending business, with fee related performance revenues in the credit and insurance segment rising 24% year-over-year to $168 million.

Distributable earnings were $1.3 billion in the second quarter, or $0.96 per share, up 3% year over year. DE was underpinned by the firm's steady baseline of fee related earnings, with Q2 representing the 11th consecutive quarter of FRE over $1 billion. Net realizations were $308 million in the second quarter – up year over year, but still reflective of a backdrop that is not yet robust as it relates to scale dispositions. That said, we executed the sales of a number of public and private holdings in the second quarter, concentrated in our Asia private equity business including: a leading healthcare services company in Korea; the IPO and subsequent sale of stock of one of the largest housing finance platforms in India; and the sale of stock of an India-based technology company.

Moving to investment performance. Our funds generated healthy overall appreciation in the second quarter, led by strength in infrastructure, private credit and life sciences. Infrastructure reported 6.3% appreciation in the quarter and 22% over the last twelve months, with broad gains across digital, transportation and energy infrastructure. Our data center platform was again the single largest driver of appreciation in our real estate and infrastructure businesses, and for the firm overall in the second quarter.

In credit, we reported another outstanding quarter against a continuing positive backdrop for private debt market fundamentals. The private credit strategies generated a gross return of 4.2% in the quarter and 18% for the LTM period. The default rate across our 2,000-plus non-investment grade credits was less than 40 basis points over the last twelve months, as Jon noted, with no new defaults in private credit in the second quarter. Our multi-asset investing platform, BXMA, reported a 2.1% gross return for the absolute return composite – the 17th consecutive quarter of positive performance – and 12% for the last twelve months. BXMA has done an extraordinary job delivering resilient, all-weather returns over the past several years, through volatile equity markets and the longest and deepest drawdown in bonds on record. Since the start of 2021, the absolute return composite, net of fees, is a cumulative 27%, or nearly double the traditional 60/40 portfolio.

The corporate PE funds appreciated 2.0% in the second quarter and 11% for the LTM period. Our operating companies overall reported stable, mid-single digit year-over-year revenue growth, along with continued margin strength. In real estate, values were stable overall in the quarter, supported by strength in data centers and global logistics. This was offset by declines in our office portfolio, including life sciences office, and certain other factors.

One final highlight on investment performance – our dedicated life sciences business delivered a standout second quarter. The funds appreciated 11.9% and a remarkable 33% for the LTM period, after achieving positive milestones for multiple treatments under development, including for stroke prevention, cardiovascular disease and rare forms of epilepsy in children. The growth and performance of this business is yet another example of the firm's ability, over many years, to innovate and translate megatrends into large-scale businesses for the benefit of our investors.

Turning to the outlook. We're putting in place the foundation for a favorable step up in earnings power over time. First in terms of net realizations. We expect a near-term lag between improving markets and a pick-up in these revenues, as we stated previously. In the meantime, the firm's underlying performance revenue potential has continued to build, with performance revenue eligible AUM in the ground reaching a record $531 billion at quarter end. Meanwhile, net accrued performance revenue on the balance sheet – the firm's "store of value" – grew sequentially to $6.2 billion, or $5.08 per share. As markets heal and liquidity improves, we are well positioned for a significant acceleration in net realizations over time.

In terms of FRE. We anticipate a material step-up in FRE in the fourth quarter, with multiple drivers of note. First, with respect to management fee holidays: the corporate PE and energy transition flagships will exit their respective fee holidays in the coming months, and will generate full management fees in Q4. BXPE exited its fee holiday this month. Second, in terms of fee related performance revenues: Q4 includes a scheduled crystallization for the commingled BIP infrastructure strategy with respect to three years of significant accrued gains; as well as BXPE's first crystallization event, with respect to full-year 2024 gains.

Looking forward to 2025, we will see the full-year benefit of the flagship vehicles that were activated in 2024. We also expect to raise multiple other flagships throughout the course of 2025, including life sciences, private equity secondaries, private equity Asia and other major strategies. In addition, we expect the continued expansion of our platform of perpetual strategies, which has grown by two-and-a-half times in the past three years. And importantly, our credit and insurance business is on a strong positive trajectory, with segment FRE increasing nearly 30% year-over-year in the second quarter. The dual engines of performance and innovation at Blackstone continue to drive the firm forward.

In closing, the firm is exceptionally well positioned against today's evolving backdrop, with powerful structural tailwinds and multiple engines of growth. Our long-term capital provides the flexibility and firepower to invest, and the patience to sell assets when the time is right. We are very optimistic about the future of Blackstone.

With that, we thank you for joining the call and would like to open it up now for questions.

Moderator: We'll go first to Craig Siegenthaler with Bank of America.

Craig Siegenthaler: Good morning, everyone. So, my question is on investing. It was nice to see the sharp pickup in both deployments and commitments in the quarter.

And with the credit piece more steady, we wanted to get your perspective on the two equity businesses, real estate and private equity. So, do you think we'll likely see further progress in the second half, or is a $24 billion deployment and $19 billion commitment on rates driven by upticks in PE and real estate really a good run rate going forward just given the stronger activity levels that you already achieved this quarter?

Jon Gray: So, Craig, it's a good question. I think it's hard to put an exact number, but there are some, I think, very positive signs. The fact that we have $19 billion committed at the end of the quarter is a good forward indicator of a lot of activity.

I would say that just the volume of what we're seeing across our business, our equity strategies is picking up. We did this last quarter, our first growth deal in a while buying an ERP software business in Israel. We're seeing good activity in our secondaries business. That has clearly picked up year-on-year. I think double the activity over last year's level. Infrastructure, quite busy. Real estate, a little more episodic, but we are definitely leaning in as we've talked about. And then private equity, broad-based, global. We bought a couple of companies in Japan. We bought an insurance brokerage in India. We bought some software and online platforms in Europe. We bought a fast-food business here in the United States.

And I would say by virtue, and I said it last quarter, sort of my briefcase indicator continues to be getting full and indicates that there should be increasing solid levels of transaction activity. So, I think the fact that we're seeing rates coming down, the markets being more conducive, more people are thinking about selling assets. I think as the IPO market reopens; we should see more. It's hard to say that it's a straight line, but the overall trend-lines on investing are positive.

Craig Siegenthaler: Thank you, Jon.

Moderator: We'll go next to Michael Cyprys with Morgan Stanley

Weston Tucker: Good morning, Mike. Are you with us?

Moderator: Please check your mute function. We're unable to hear you.

Weston Tucker: Let's move on in the queue.

Moderator: Thank you. We'll next go to Alex Blostein with Goldman Sachs.

Alex Blostein: Hey, good morning, everybody. Jon so maybe just building on your point around deployment activity picking up, I was hoping we could zone in on what that could mean for real estate fundraising. Obviously, it's been an area of somewhat of a challenge, but as deployment ramps, and you guys are making nice progress on BREP 10, I believe, and other areas as well. So, what areas do you think will be the soonest to come back when it comes to real estate fundraising and your broader outlook there over the next 12 to 18 months?

Jon Gray: Well, obviously, the sentiment for investors on real estate has been pretty negative, given what's happened in much of their portfolios.

We have been an outlier. We've raised over $8 billion for our latest opportunistic European fund. We've raised now a little over $5 billion for our latest real estate debt fund. I think they're going to be a little more cautious going into open-ended funds until they see more of a pickup.

I think it is an area that's probably a little more muted for a period of time, just because of investor caution. But we've seen this before. If you went back to the financial crisis, people wait for the numbers to get better, to feel better about a sector, and then they start to jump in. I will say the tenor of the conversations around real estate have improved.

I think people are recognizing that prices have reset and that it's an interesting time to get back in. And I think one of the really important things, and Steve pointed this out in his remarks, is the differentiation of our performance. The fact that we're three quarters allocated to logistics, rental housing, and data centers, which looks very different than other investors. And I think, like the financial crisis, it may take a bit of time, but when people see the dispersion in performance and how we've done, I think we'll see significant capital moving in our direction. So, the path of travel here, I think, for us is good. But in real estate, I think it'll take a little bit of time just because of the experience investors have had in the sector.

Michael Chae: I'd just add, Alex, this is Michael. In terms of the BREP drawdown area, obviously, I think our timing was fortuitous in terms of being able to raise those funds over the last two or three years and now being in a really amazing position with $60 billion of dry powder, and so we're in a good position where, subject to finishing the Europe drawdown fundraise, we have a lot of dry powder to invest from those opportunistic vehicles.

Alex Blostein: Yep. Thanks so much.

Moderator: We'll go next to Glenn Schorr with Evercore ISI.

Glenn Schorr: Hello there. Good morning.

I'm curious if we could get a little update on bank partnerships and asset-backed finance. There was another deal announced today, outside of you guys, but there's been a tremendous amount of news flow in that space, and the asset-backed opportunity might be multiples larger than what we've seen in middle-market lending.

So, I wonder if you could help frame the opportunity and remind us what you have on the ground already.

Jon Gray: Well, I think it is a big area of opportunity, because I think you can offer clients higher returns in investment-grade private credit, particularly in the asset-backed sector, because you're able to take out a lot of the distribution costs in an ABS transaction. And so, we've seen a tremendous amount of interest in this area. In fact, we talk about 15 SMAs with insurance companies away from the big four strategic partnerships, and virtually all of those have some piece of asset-backed finance. It could be fund finance. It could be transportation, digital. It could be green energy. It could be residential.

We're just seeing a tremendous amount of interest in this area. We've been building up the number of platforms. We have partnerships and flow agreements with banks. We've been making some smaller strategic investments from our partners. As you know, we have a balance sheet light approach to this. But I think that market is something like a $5 trillion market, and the penetration remains very low. And we have seen a big pickup in terms of our volumes in this area. And I would expect you'll see more. I would also point out that the build-out of the AI infrastructure, which Steve dwelled on, and I think is really important, much of that will be in asset-backed finance. And so, if you think about financing data centers and financing the power that's going to support that, it will be ABF. And the fact that we have an enormous equity business that invests in scale in both of these areas and have a lot of expertise, makes credit investors, and insurance companies particularly, want to allocate more capital. So, it feels to us like a very big market. Early days in terms of penetration. And because these are long-duration assets, I think the holders really appreciate additional spread. And the dialogue in this area is as good as anywhere at the firm today.

Glenn Schorr: Thank you, Jon.

Moderator: We'll go next to Crispin Love with Piper Sandler.

Crispin Love: Thanks. Good morning, everyone. Appreciate you taking my question.

Just a big-picture question on the election, just with the US election rapidly approaching, can you speak to what you expect to be the biggest impact to you prior to the election? And then how that could impact near-term deployment and realizations? And then how you would also expect the differences between former President Trump or President Biden or perhaps another Democrat occupying the White House to impact Blackstone and the environment over the intermediate term and beyond? And how that could change your activity, just depending on what we see in November?

Jon Gray: I think on the pre-election side, I think investors, frankly, are more focused on what's happening with the economy and in particular with inflation. I know there will be a lot of press coverage, of course, rightfully, on how the Democrats, Republicans are doing, how things look. But I think if we get good prints on inflation that gives the Fed more air cover to cut rates, that will be more determinative of how markets perform.

So, I think that is really the key thing to keep your eye on, even though there will be a lot of press focus on the election itself. I think post-election, you could see some very different policies. I would just back up and say, look, we've operated in blue environments and red and purple environments, and the constant for us is delivering great returns for our customers.

And that's what we focus on. And we focus on a lot of these long-term trends that we've talked about: what's happening in digitalization, what's happening in power and life sciences, the growth of the alternatives business, private credit. We think those are the long-term determinants of value. That being said, what happens here, there will be differences.

There'll be differences in the regulatory front. Certainly, if you had a Republican administration in areas like antitrust, you would see a different posture, I would believe. On energy, you could see, obviously, a different approach on hydrocarbons versus renewables, and you have to factor that into investing. And you could see a very different policy in terms of tariffs broadening out and maybe being certainly higher, and you have to think about that in terms of manufacturing businesses.

So, the good news is, I think we have a pretty good sense of what that may look like, and we're really focused on the long-term in some of these big sectors where we think there are huge opportunities. And regardless of which side wins, I think those things will be really the critical item in terms of driving higher returns.

Crispin Love: Thank you, Jon.

Moderator: Thank you. We'll go next to Brian Bedell with Deutsche Bank.

Brian Bedell: All right. Great. Thanks.

Good morning, folks. Maybe a question for Michael on FRE margin. Obviously, as you're scaling, or I should say, as you're building the base management fees with the funds coming off holiday and these new funds coming into market in 2025 and obviously on the deployment on the credit side. As you think about 2025 from an FRE margin perspective, I know Michael, you've said you certainly want to scale the FRE margin over time, but should we be set up for a step up in the FRE margin in 2025, excluding the impact of whatever happens with fee related performance fees? And if you could just remind us of what you think the comp ratio overall on for FRPR is, maybe that depends by product, but a few questions in there, but basically FRE margin ex-FRPR is the base question.

Michael Chae: Sure. Hey, Brian. Look, I think the underlying sort of trajectory and baseline for margins, certainly ex-FRPRs, is one of stability in the near term and we think operating leverage over the long term. I think you note correctly the two sort of, key variables in the nearer term. Fee holidays and that level of sensitivity to fee related performance revenues on fee holidays, corporate private equity energy transition both activated in this quarter as I mentioned. We'll have some other funds that will be in holiday proportions in the second half. So, we'll come through that in the latter part of the year and into next year.

And then second, that level of sensitivity to fee related performance revenues. So, core plus fee related performance revenues do carry higher incremental margins generally, as do direct lending incentive fees. And on the other side for infrastructure, Q4 represents its first large crystallization and as we've been building and scaling out that business, it carries with it a modestly lower effective margin at this stage of its development. But of course, it's been performing extraordinarily well and that's very positive for FRE on an absolute dollar basis. So, overall in the near term, we'd expect full year margins to be sort of in a reasonable range relative to last year. Where it falls within that, a function of the factors I mentioned that you cited. And then longer-term, that sort of picture of stability and over time of operating leverage.

So, I think you framed the picture right. I think you alluded to the right couple of variables in both the near term and into 2025. And obviously, on a long-term basis, we're very comfortable and optimistic about it.

Moderator: Thank you. We'll go next to Ken Worthington with JP Morgan.

Ken Worthington: Hi. Good morning. Thanks for taking the question.

In terms of the secondary business, there's been an overwhelmingly positive course of commentary from the industry at large. Two things: Maybe can you talk about deployment opportunities and the competitiveness of private equity secondaries these days? And then your secondary returns in your investment performance table has trailed private equity and other asset classes in recent years, I think in 2023 up 2.5% and in 2024 up 3% to date. As you go into flagship secondary fundraising, what anchors your confidence in being able to raise more money in the next vintage and are returns a factor here?

Jon Gray: So, a couple things on the secondaries business. One I would say is that if you just look at what's happening in alternatives, the growth in alternatives, which has been a double-digit grower now for a long period of time, what we've seen is the need for liquidity as an asset class grows. And so that's why the secondaries business continues to grow and our business, which we started with 10 years ago at $10 billion, has grown eightfold. And so, there's a need for liquidity. And even today, if you look at the volume of secondaries that trade, it's 1% to 2% of the underlying NAV in funds, which is very low for most asset classes in terms of liquidity. So, there is, as alternatives grow, the fact that this sector, there's not enough liquidity today in the sector, and the sector is growing, it creates a secular opportunity.

And also, as you know, in the institutional market, what we've seen is a bunch of clients are over their targets and that's creating a deployment opportunity. So, I think we as the largest player in the space, feel very good. When you comment on returns, if you look at those overall, they've been remarkably strong. Yes, in recent quarters not as strong, but since inception, mid-teens or higher returns and latest funds high teens net returns.

So, when we think about going back out to raise our next flagship fund, our confidence level is extremely high. Our last vintage, I think was $22 billion for our private equity secondaries business. The team there, Vern Perry, has done an incredible job. Our expectation is we would raise something larger.

So, it feels like a segment that is well-positioned, that there is a bit of structural inefficiency that's allowed you to generate attractive returns. Clients are beginning to really recognize that the risk return is favorable, and we think it can continue to be a real growth driver here at Blackstone.

Michael Chae: Just to add onto and reinforce John's point, first of all, on the long-term track record, as John said, you can see in the investment record: 14% across the business. And in the two most recent invested funds: 24% and 21% net.

I would say in the last year or so, you noted the return versus private equity. First of all, there is, as you know, a lag on the reporting of the secondaries business relative to the underlying GPs. Moreover, I'd say the nature of the secondaries business is portfolios that tend to have more mature investments. And so, when I think in terms of the cyclical rebound in returns, that will also lag and be more muted to some degree than the overall market and what you'll see in our own private equity business. There's also a variable around the level of deal flow, you know, a year ago and the benefit that comes from buying those funds at a discount to the fund returns in the short-term. But long term overall, it is an outstanding track record.

Moderator: We'll go next to Dan Fannon with Jefferies.

Dan Fannon: Jon, I was hoping you could expand a bit more on the fundamentals you're seeing in real estate, which is obviously fueling some of the confidence around your accelerating deployment. I think you mentioned more buyers out in the market, but hoping to get a little more context around the broader real estate environment.

Jon Gray: So, what we said on real estate, and you guys know because we've been certainly talking about it for some time, is there are a couple of, I'd say, very positive signs that are emerging in the overall real estate picture. Office, as we've said, is more challenged. Vacancy rates in office today are sort of mid-20s, and it's going to take a while to work through that. In the other sectors, the fundamentals are better. If you think about apartments and logistics in the US – 5%-6% vacancy. Demand has softened a bit, but pretty steady, I'd say, in both of those areas. Very positively, supply has come down ~50% in multifamily starts, 75% from the peaks in warehouse starts. So that's very good long term.

But the near term thing that has really impacted price and transaction volume has been cost and availability of capital. So, if you went back to the fall, the 10-year was 80 basis points higher than it is today. Spreads were probably 100 or more basis points wider, and the CMBS market was basically closed. That's changed pretty significantly, and the result of that is, in those sectors where we have our greatest exposure, which would be logistics and rental housing, we see 2-3 times more bidders showing up to buy assets.

So, I think that is clearly a positive. We have said we don't see some sort of rocket ship V-shaped recovery here, but we definitely have seen, if you look at the Green Street Property Report, six quarters, as I noted, where things have been flat and rising, and the sentiment's improving. So, you've got a better cost of capital environment. You've got decent fundamentals, and that sets the groundwork.

And if you went back to the financial crisis, of course, we started deploying in the summer of 2009. There were still plenty of negative headlines from troubled deals for the next couple of years, and it was a great deployment period for us. And there's some similarities we're seeing today. The sentiment we think will stay negative because there still will be some troubled assets to work through the system, but on the ground, prices have cleared and some of these headwinds have gone away and that creates a favorable environment. And what we're doing now is seed planting for the future. And so, these huge public to privates we've done in the US, the big push in European logistics, we think this will pay real dividends for our investors over time.

Dan Fannon: Great. Thank you.

Moderator: We'll go next to Benjamin Budish with Barclays.

Benjamin Budish: Hi, good morning and thanks for taking the question. I wanted to ask maybe a specific one on BPP. If you could give an update on sort of what's happening there with the redemption queue? And then it sounds like based on your optimism around real estate performance and inflows potentially picking up over the near to medium term, how should we think about the sort of inflows and outflows of that fund evolving over the next say 6 to 12 months? Thank you.

Jon Gray: Yeah, in our core plus institutional business, we've seen a little bit of a pickup. It's still single digit in terms of the redemption queue across our BPP product line. I think, as you know, in this different than what we have in our individual investor vehicle, that it's based on new capital coming in, in terms of providing liquidity over time, and the institutional investors have a recognition that it takes time in a period like this to get liquidity. As I said earlier, on fundraising, my expectation would be open-ended funds will take some time before investors feel a little more confident. We're starting to see some interest, particularly folks thinking about could they buy in at a little bit of a discount and so forth.

But I think it's a question of working our way through the cycle. Again, here, I think we've done a very nice job on how we've set these portfolios up for success over time in terms of the portfolio positioning. But I would say my expectations on inflows here would be a little bit muted over the near term. But as fundamentals, certainly as real estate starts to deliver more positive performance, we can see this shift.

And that's exactly what happened if you went back to the post financial crisis period, interestingly, what you see in that case is people want to get deployed and then they pull their redemptions from the queue. So, in many cases, they get in the queue thinking about, well, maybe I want liquidity. Then when the world turns, they pull that back.

So, I think that could happen over time as well. And it is obviously a tie here to what happens in the cycle.

Benjamin Budish: Got it, thank you, Jon.

Moderator: Thank you, we'll go next to Brennan Hawken with UBS.

Brennan Hawken: Good morning, thanks for taking my questions.

So, I was curious, given the tightening of redemption limits that we saw at SREIT during the quarter. Can you speak to the impact that you saw in the wealth market on the back of that? I mean, totally appreciate that BREIT is dramatically better positioned, and you all actually allowed for more redemptions – went above the limit in a clear sign of strength – so it's not really about BREIT specifically, but more about what SREIT, the impact that had on that market and maybe risk appetites.

Jon Gray: As you noted, there was a short-term impact in May in BREIT specifically as investors got nervous. We were able to assure investors that we managed the liquidity in a very differentiated way. And then we saw in June redemptions, specifically in BREIT, come down pretty sharply – 50% from May levels. And as I noted in my remarks, month-to-date so far, they've come down additionally.

We have not seen a dramatic change, or frankly much of a change, in terms of sentiment and what's happening in the private wealth channel. I think in real estate specifically, investors are still waiting and seeing here a bit, although we pointed out in the quarter, we had our best inflows in BREIT in a year. BCRED had its best quarter in two years in fundraising and BXPE has continued to raise significant money. And that has been a very successful launch in the first six months. Ultimately, this is about performance. That's what matters, that's what drives things. It's the same story as our institutional business.

We are relentless in focusing on where we invest capital, how we manage the assets, and how we deliver returns. And if you look at BREIT since inception, remarkable double-digit net returns over seven-and-a-half years, more than double the public REIT index. You look at the double-digit net returns in BCRED, the strong start for BXPE, this is what ultimately matters to our underlying clients. And this is what we've got to do. And I think, frankly, getting through this downturn period and people seeing the semi-liquid structure work, I think will give additional confidence. So, as long as we continue to execute, I think that's the key in this private wealth channel. And I feel good about our ability to do that. So, our confidence in the channel remains extremely high.

Brennan Hawken: Thanks for that color.

Moderator: We'll go next to Bill Katz with TD Cowen.

Bill Katz: Thank you very much. Maybe to pick up on the retail discussion, you were obviously very early and very prescient in terms of building the platform. However, the last number of years, there's been a very big pickup of focus and new players into that. So, I was wondering, as you look ahead, how you sort of see the evolution of the wealth management opportunity? Certainly, a big denominator, but how do you think the competition shakes out? And how are the conversations with the financial advisors and intermediaries playing out in terms of how they're allocating to the bigger brands. Thank you.

Jon Gray: It's definitely an area of large-scale opportunity and everybody in the industry is recognizing this now. I think credit to our firm to get into this well before other people, to focus on financial advisors and their underlying clients. To build out now a 300+ person global team, led by Joan Solotar, that's focused on serving individual investors and also innovating, creating these perpetual products that brought costs down very significantly from what had existed historically in non-traded REITs, non-traded BDCs, and really innovating to create things that would work from a cost, structure, tax standpoint, liquidity standpoint.

And so, I think we will see more competitors move into the space. The advantage we have is our brand. I touched on it at the end of my remarks, but I think that is perhaps the most powerful asset of our firm, along with our people. Investors know us and trust us because we've done such a great job investing capital for four decades. And the relationship and reservoir of goodwill we have with individual investors in the products, in the results we've delivered in BREIT and BCRED, and in the drawdown funds that we have sold into the channel, have built up a lot of positive feelings. So, I think others will show, but we're continuing to innovate here. We talked about in the remarks, new products in infrastructure and multi-asset credit. I think the one advantage, I'd say in this market versus the institutional market, there you can have thousands and thousands of individual private equity firms or real estate firms, credit firms. I think when you get to private wealth, the brands are going to matter, the scale, the ability to service. And I think it'll be a smaller number of players in that segment. It'll grow over time, but it requires something different. And we have a pretty meaningful first mover advantage, $240 billion of total assets, and we are absolutely committed to delivering great performance and great service to the underlying customer. So, we recognize it's going to be more competitive. Others will try to do things in the marketplace. We respect them, but we really like our first mover position in this very large and growing market.

Moderator: Thank you. We'll go to Patrick Davitt with Autonomous Research.

Patrick Davitt: Good morning. Most of mine have been asked. The gross to net flow GAAP in AUM was fairly dramatic for a low realization quarter. To what extent is that a result of the assets moving between strategies and or funds? And if so, could you give the volume of that rotation that was included in gross flows, if any? And then taking a step back, is this a trend we should expect more of on a go forward basis? Or do you think 2Q was uniquely large? Thanks.

Michael Chae: Yeah, I think, Patrick, there has been over time, a bit more of that dynamic. That involves, to some degree, the open ended funds and the nature of how those work. And there have been some shifts in terms of allocation of capital between businesses that cross segments. And also, we had in the second quarter, the move, from a reporting standpoint, a couple businesses between Credit and BXMA. The nature of the business involves more of that, but I think it's not going to be dramatically different over time.

Moderator: Thank you. We'll take our last question from the line of Arnaud Giblat with BNP.

Arnaud Giblat: Good morning. A quick question on the wealth channel. I'm just wondering if you could share with us why you think the European semi-liquid products lag so much versus the US products? And do you think that a refresh of the rules, with the new ELTIF 2.0 rules, are likely to offer a material opportunity to grow in the European Wealth Channel?

Jon Gray: So, we love Europe. I'll be there next week. But it is harder on the regulatory front. If you look at the European Union, you have a completely different set of rules for private wealth products almost by country. And some of the rules, I do believe, need to be updated. The definitions of who can invest, the term professional investor, which is technical, there are a lot of limitations by country. And the structures you can use are very different.

So, you have to attack Italy different than Switzerland and Spain or Germany. We built up a lot of capabilities. We're having some success today with our European direct lending platform, although it's still small. I think European investors ultimately will want the same thing as US Investors. They tend to be a little more risk averse, as you know. But I think their desire for strong returns in a product that's designed and works for them will be high. And we're just, we're a persistent bunch. We're going to stick at it in Europe.

We do want to work with the regulators to try to make this a little bit more of a user-friendly environment. And the distributors, the big financial institutions recognize this as well. So, I think it's a long-term process. I think it can change. We've seen some changes in places like Japan that were conducive to selling some of these private wealth products. And I think we will, over time, hopefully see changes in Europe because I think the products make a lot of sense for customers. So, we'll stick at it, and it's probably going to take some time.

Moderator: Thank you. That will conclude our question-and-answer session. At this time, I would like to turn the call back over to Weston Tucker for any additional or closing remarks.

Weston Tucker: Thank you, everyone, for joining us today, and look forward to following up after the call. Have a great day.

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